CI GLOBAL EQUITIES FUND (UNHEDGED)
QUARTERLY REPORT

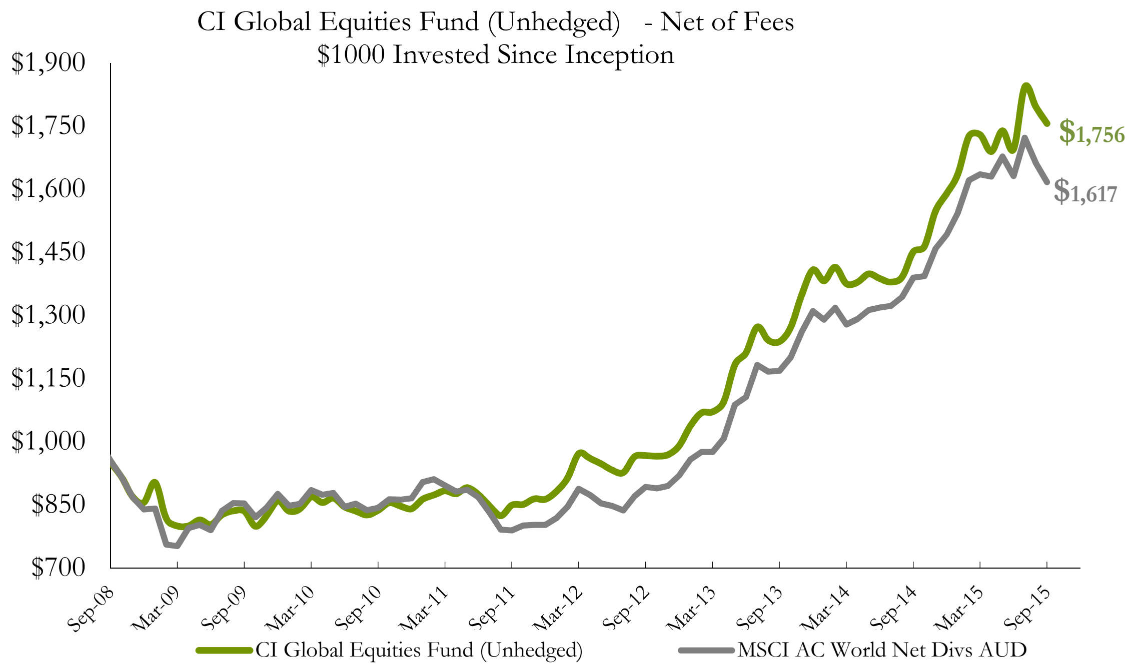
Cooper Investors Pty Limited AFS Licence Number 221794 ABN 26 100 409 890

SEPTEMBER 2015

"Freedom is the sure possession of those alone who have the courage to defend it." Pericles.
"The only thing necessary for the triumph of evil is for good men to do nothing." Edmund Burke.
"We rise by lifting others." Robert Ingersoll.

	****PORTFOLIO**	**#BENCHMARK**	**VALUE ADDED**
ROLLING 3 MONTHS	3.77%	-0.89%	4.66%
ROLLING 1 YEAR	22.35%	16.31%	6.04%
ROLLING 3 YEAR	23.53%	21.92%	1.61%
ROLLING 5 YEAR	17.30%	13.91%	3.39%
ROLLING 7 YEAR	10.27%	7.81%	2.46%
SINCE INCEPTION*	9.39%	7.02%	2.37%
SINCE INCEPTION^	88.73%	61.67%	27.06%

*Annualised
^Cumulative (1 September 2008).
**Before fees and expenses
MSCI AC World Net Divs in AUD



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Market and Portfolio Performance

Fear dominated global markets this quarter, as concerns over the slumping Chinese market and its implications for a slowdown in global economic growth triggered the largest increase in volatility we have seen since the GFC.

In early August the People's Bank of China shocked the market by announcing a devaluation of the renminbi, in what markets took to be the most tacit admission so far that all is not well in the world's second largest economy. With the 'A' share bubble in the midst of bursting and global markets having looked wobbly for months this proved to be straw that broke the camel's back. The portfolio is underweight emerging markets and we have no direct equity exposure to China.

September brought one of the more anticipated Fed meetings in recent memory but ended with a damp squib as the Fed Funds rate was maintained at the target range of zero-to-25bps. Indeed most of the world remains in an easing cycle – this quarter's policy rate cutters include China, Russia, Canada, Sweden, Norway, New Zealand and Taiwan.

Given the stock market volatility, it was a good time to be 'away from the screens' and the team undertook extensive travel during the quarter, visiting existing holdings and their peers, watchlist stocks, and researching new ideas and emerging trends. We find comfort in the quality of the portfolio's holdings, the focus of their management and the resilience of their business models and balance sheets. Valuations in many of our markets were looking stretched earlier this year and we would much rather be hunting for opportunity when prices are falling.

The AUD is continuing to slide in 2015. This quarter it fell 9% vs the USD and EUR, 5% against the GBP and 10% against the JPY.

The portfolio returned 3.77% during the quarter vs the benchmark return of -0.89%.

The biggest contributors to performance in terms of total shareholder return included:

1. **Google** – a restructure was announced in which the traditional search and display advertising part of Google will sit as a pure-play entity under a new holding company (Alphabet Inc.) while the more 'blue-sky'/future-oriented projects will sit elsewhere. This improved transparency was very well received by the market, while better cost control was observable in the Q2 results.
2. **Constellation Software** – the stock rose 11% in the quarter on no news.
3. **Reckitt Benckiser** – Ongoing outperformance of peers in growth and profitability; H1 numbers saw organic growth of 13% in Health and 160bps of EBIT margin expansion.

The worst performers in terms of total shareholder return included:

1. **Time Warner Inc** – US media stocks fell on concerns over sustainability of the cable bundle.
2. **International Paper** – dragged down with Materials stocks despite being a packaging company.
3. **Telefonica Brasil** – The Brazilian Bovespa fell 17% in the quarter over macro concerns.

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The Portfolio

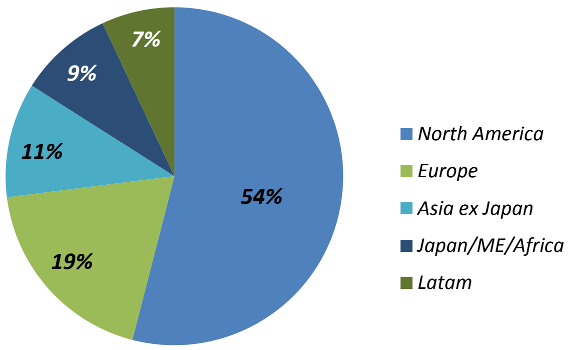
The portfolio is positioned around subsets of value:

- **Stalwarts** (43% of the portfolio) – sturdy, strong and generally larger companies with world class privileged market and competitive positions (e.g. Reckitt Benckiser).
- **Niche growth companies** (29%) – growing companies with identifiable value propositions using traditional value metrics and run by focused, prudent and experienced management (e.g. Costco).
- **Bond like equities** (4%) – stocks with secure, low-volatile dividends that can be grown and recapture inflationary effects over time (e.g. Unibail-Rodamco).
- **Asset plays** (9%) – stocks with strong or improving balance sheets trading at discounts to net asset value or replacement value (e.g. Remgro).
- **Low risk turnarounds** (13%) – sound businesses with good management and balance sheets (e.g. Towers Watson). We especially like government to private turnarounds.

The portfolio is also diversified by country and sector:

No. of Stocks	**43**
Region Weights	**US 48%** **Europe 35%** **Asia inc. Japan 4%**
Most OW Sectors	**Industrials, Cons. Staples**
Most UW Sectors	**Energy, IT**
Cash	**5%**

Geographical Exposure by Source of Revenues#



#Derived on a look-through basis using underlying revenue exposure of individual portfolio stocks

This quarter we initiated positions in **Roper Technologies**, **OHL Mexico** and **East Japan Railway**. We also fully exited positions in **Verizon**, **United Technologies** and **American Express**.

- **Roper Technologies** (Mcap US$15bn) operates in the mould of Danaher which has been an investment in the portfolio for over 5 years. Roper runs a model whereby most of the free cash flow is deployed back into niche M&A opportunities. Roper then uses its cash flow focused culture and zero-based-budgeting principles to run and grow the acquired companies in a more productive way. The headline multiples of Roper look expensive because of accounting rules around amortisation of intangibles. However, the profitability and cash generation is much better and we are able to buy a company that has grown free cash flow at 15%+ p.a. for 15 years at a multiple below 16x free cash flow. We used the recent weakness in its share price to build a position.

- **OHL Mexico** (Mcap US$2bn, "OHLMEX") owns an attractive portfolio of toll roads predominantly located in heavily congested Mexico City. The share price has fallen around 45% over the past year due to concerns around its governance structure, the parent's financial position and allegations that OHLMEX acted inappropriately when entering into and negotiating some of their concessions. Following extensive due diligence we believe the share price decline has overstated these risks. In addition, the intense scrutiny the company is facing puts pressure on OHLMEX to improve its governance structure (which they have commenced) and over time we believe the market will refocus on the high quality assets that stand to benefit from decades of economic growth.

- During our trip to Tokyo in June we became very excited by the dynamism within Tokyo and specifically its ability to continue to grow in spite of the demographic headwinds facing Japan more generally. **East Japan Railway** (Mcap $34bn, "JRE"), a bond like equity, leverages this theme. JRE owns and operates the subway and Shinkansen (bullet train) in Metropolitan Tokyo and the real estate assets in the areas adjacent to their stations. JRE provides investors with stable earnings from the regulated rail business and existing properties, and the potential of additional growth from property development and future rental increases.

- We sold our position in **Verizon** (Mcap US$180bn, "VZ"). The position was created when Vodafone (then a portfolio holding) sold its 45% stake in Verizon Wireless to VZ and received cash and scrip consideration. We subsequently added to the position believing the shares were depressed due to Vodafone shareholders liquidating their new VZ position. Our return over the period has been disappointing with a small capital loss supplemented with income from the dividends over the 18 month period. The reason for selling is twofold, first the operating environment has become increasingly competitive as the industry has matured with smartphone penetration reaching over 80% and a third player improving its network and industry positioning. Secondly, VZ is still clinging on to its mid-single digit growth targets despite a lower growth environment which has seen it expand outside its core activities into content (for example, the AOL acquisition).

- The portfolio sold its position in **United Technologies** (Mcap US$75bn, "UTX")) pre the Q2 results as we had several concerns, particularly around the Chinese elevator operations within OTIS. The Chinese market has become half of all elevator new-builds globally, which is worrying. As the construction environment weakened and peers like KONE and Yungtay Engineering began talking about softness, we became concerned that the company would find it very tough to hit expectations near term and thus exited the position.

- **American Express** (Mcap US$15bn, "AXP") – Concerns over an intensifying competitive environment in US payments combined with historically low credit provisions has encouraged us to sit on the sidelines and redeploy capital into better opportunities.

Stock News

On the last day of June **Towers Watson** ("TW") announced a merger of equals with Willis Group Holdings ("WSH").

As a combined Benefits Consultant and Insurance Broker, the merged entity will now look more like listed peers AON (portfolio holding) and Marsh & McLennan. Along with the market we were initially surprised when TW decided join with underperforming insurance broker WSH. However upon further examination we feel that at current levels the market is giving no credit to the potential value creation on offer.

Whilst there is no single significant strategic rationale for the merger, management have laid out several plausible and attainable value creating opportunities. From a revenue stand-point there are cross-selling opportunities owing to the differing market segments the businesses have traditionally served. There are straight forward cost-out opportunities at the corporate level and tax savings via TW moving to WSH Ireland-based low tax domicile. When combined, these opportunities provide sound merger rationale.

The TW management team will run the combined group making this transaction more of a “take-under” than a merger of equals. Further, current WSH CEO Dominic Casserley will be part of the new entity in order to see out the execution of his significant operational improvement plan at WSH which is beginning to take effect.

We gain comfort that the TW management team have a strong acquisition and integration track record, specifically the 2010 Towers Perrin-Watson Wyatt merger and the 2012 Extend Health acquisition. Notably, on both these occasions the initial market reaction was negative, with the management team going on to deliver operational performance above even their own guidance.

Two of the portfolio’s healthcare stocks saw regulatory approvals of ‘blockbuster’ drugs during the quarter. Firstly *Praluent*, **Sanofi’s** biologic for treating high cholesterol was approved by both the FDA in the US and the European Commission. The smooth approval process and launch phase of *Praluent* has been a key deliverable during new CEO Olivier Brandicourt’s first year in charge.

Secondly *Tresiba,* **Novo Nordisk’s** next-gen basal insulin has finally been approved by the FDA having already been approved in Europe and Japan for some time. *Tresiba* is a key drug for Novo, representing an upgrade from workhorse *Levemir*, their standard novel insulin. The FDA approval was delayed in 2013 which resulted in a sharp fall in the stock at the time, but the approval now is months earlier than expected and represents a big tick for Novo in terms of execution. That they were able to so quickly build an additional population of clinical trials, execute them to the satisfaction of the FDA and file much earlier than anticipated speaks volumes to the company’s agility in the face of unexpected obstacles.

Close Brothers (“CBG”), one of our niche growth companies, reported record full year earnings in the quarter. EPS grew 19%, the group increased their dividend by 9%, ROE in the bank hit 27% and Moody’s upgraded the bank to A3, now one of the highest rated banks in the UK. At a time when many European financials are struggling to squeeze a decent ROE through higher capital requirements, litigation expenses, and anaemic loan growth, CBG is flying along. We spent time with the CEO during our recent trip and continue to be excited about their focus and opportunity. We have identified a number of banks around the world that do things differently in a cluster we describe as ‘1950’s Banking’ and CBG acknowledged the similarity between themselves and Svenska Handelsbanken (a portfolio holding). We see three key differentiators that allow CBG to achieve these excellent results.

(1) By specialising in their areas of competence (small ticket, collateralised and short duration loans on equipment, cars or property) the company is able to enjoy high net interest margins.

Key metrics	2015	10 year average
RoE	27%	21%
RoNLB	3.8%	3.5%
Bad debt ratio	0.8%	1.5%
Net interest margin	8.8%	9.1%
Loan book growth	8.5%	11.5%

Source: Company Presentation

(2) By applying a disciplined and decentralised lending culture in which each credit officer is incentivized on his bottom line after bad debts (rather than a loan growth target like most banks), CBG keep loan losses down and asset quality high.

(3) By lending in niches like trucks or green energy project finance, CBG occupy a space that is not interesting for the major banks who are fighting over mortgages, consumer credit cards and retail deposits. This means CBG can gain market share and grow their loan book at high single digits, materially above system growth rates.

Trip News

This quarter has been a busy season of travel for the Global team. Once again we have really seen the benefit in getting out and about, meeting management, travelling around cities with 'eyes and ears open' and taking the temperature of our portfolio holdings and watchlist stocks.

We have an ongoing presence on the ground in the US and visited Mexico for the first time. We also just returned from a gruelling but rewarding tour around Europe, taking in the UK, Germany, Italy, Spain, Norway and Finland. Over this period we conducted over 160 one-on-one meetings across every sector of the market.

To the **US** first, where have been we travelling up and down the East Coast.

Of particular note is that while the economy as a whole is tracking along well, it's very much a tale of two stories – strength in business services, technology and healthcare while energy, materials and industrial companies struggle with end market headwinds. The portfolio has no direct exposure to energy and commodity stocks however a number of companies do have indirect exposures. For example Grainger and Agilent generate a small but not insignificant portion of their revenues in the energy and chemicals space which is causing some near term pressure.

Related to the energy and commodity weakness is the dim view of Emerging Markets ("EM"). In only a short number of years EMs have gone from market darlings to taboo in this part of the world. Companies want to talk to US and European operations and play down China and Brazil exposures. With growth rates coming off, corporates in general have a new sense of caution about the EM opportunity. One of the large U.S advertising agencies commented that, despite there being 100,000 ad agencies in China, they do most of their business with multinationals as "the local branded companies will steal your idea and take it to his cousin's agency down the road". This mindset, along with a strong US Dollar has seen many high quality multinationals underperform in this weak market.

The staggering costs of healthcare continue to be a serious issue that the US must face. With healthcare spending now at 17.4% of GDP the average family insurance premium is now above $17,000 p.a. Over $12,000 of this is paid for by an individual's employer. This is money that is being taken away from wage and employment growth. Further, the price inflation of branded drugs is extreme – prices have increased 128% since 2008 with pharmaceutical companies looking to supplement the lost revenues caused by generic competition as older drugs come off patent.

We are extremely cautious about the sustainability of this trend. Most recently this is playing out in the pullback in the biotechnology index which is down more than 20% from its peak. Portfolio holdings such as Novo Nordisk, Sanofi and Johnson and Johnson have been beneficiaries of this price inflation but their global operations means they do not have a sole reliance on the US market, nor some of the drugs with stratospheric prices. With the opportunities and risks in mind the Portfolio has a global and diverse healthcare exposure with Danaher and Agilent strong in diagnostics and life sciences, while Reckitt

Benckiser, Towers Watson, AON and Remgro have smaller but material exposures to emerging healthcare needs.

While spending on capex continues to stay soft the key areas companies are investing in are customer service and technology. From the cable companies to smaller end banks, customer service is being seen as the best investment to be made. The “Uber effect” - pointing to the way Uber has used technology to turn the taxi industry upside down - has been the most common term mentioned by companies in these few weeks on the road. Corporate America is scared the game plan that worked for the 20th century is no longer applicable in the 21st. For example, the number of bank branches no longer correlate to market share and growth.

This mindset has seen an insourcing boom in any customer facing activity as well as investment in strategic and technology services to deal with new competition and more demanding consumers. We continue to look for potential investments in this space.

We travelled to **Mexico City** for the first time as part of our due diligence around OHL Mexico. There we found an economy with enormous potential owing to its proximity to the United States, stable macroeconomic environment and modern financial system. At the same time Mexico faces challenges from a large and unproductive informal economy as well as infamous security issues. The current administration is implementing a broad reform program to address this, but we think the transition to broader economic inclusion will be slow and therefore we prefer investments that are disproportionately exposed to the country’s modern economic engines – such as OHL Mexico due to its exposure to Mexico City.

In **Europe**, we came away with the sense that the region should be able to ‘muddle through’ the current difficult environment. The refugee crisis from Syria dominated headlines and conversation during our trip, and it is clear that this could have a significant impact on the region both politically and economically. The crisis has certainly diverted attention from Greece and the Euro, however the underlying issues with the structure of the EU remain the same. US economist John Mauldin and UK journalist Ambrose Evans-Pritchard sum it up well:

“Just as the Grexit crisis showed us the underbelly of European monetary integration, the refugee crisis highlights the huge difficulty of political integration. Hungarians, Slovaks, and Czechs do not want Brussels telling them how many Syrians they must admit and support. I don’t blame them.” (Mauldin).
“By invoking EU law to impose quotas under pain of sanctions, Brussels has unwisely brought home the reality that states have given up sovereignty over their borders, police and judicial systems, just as they gave up economic sovereignty by joining the euro.” (Evans-Pritchard).

Our visit to Spain was the first in 18 months and the mood was noticeably different. By enduring tough austerity measures including public spending cuts and labour reform the economy is now recovering. Car sales are +20% YoY, unemployment is falling, house prices have stabilised and traffic in major Spanish airports is growing 5-6%. Cheap oil helps - Spain is a nation of car drivers with petroleum products more than 20% of imports. Broadly, the country is benefiting from a significant improvement in competitiveness versus the rest of the EU – the country is now exporting more car components than Eastern Europe.

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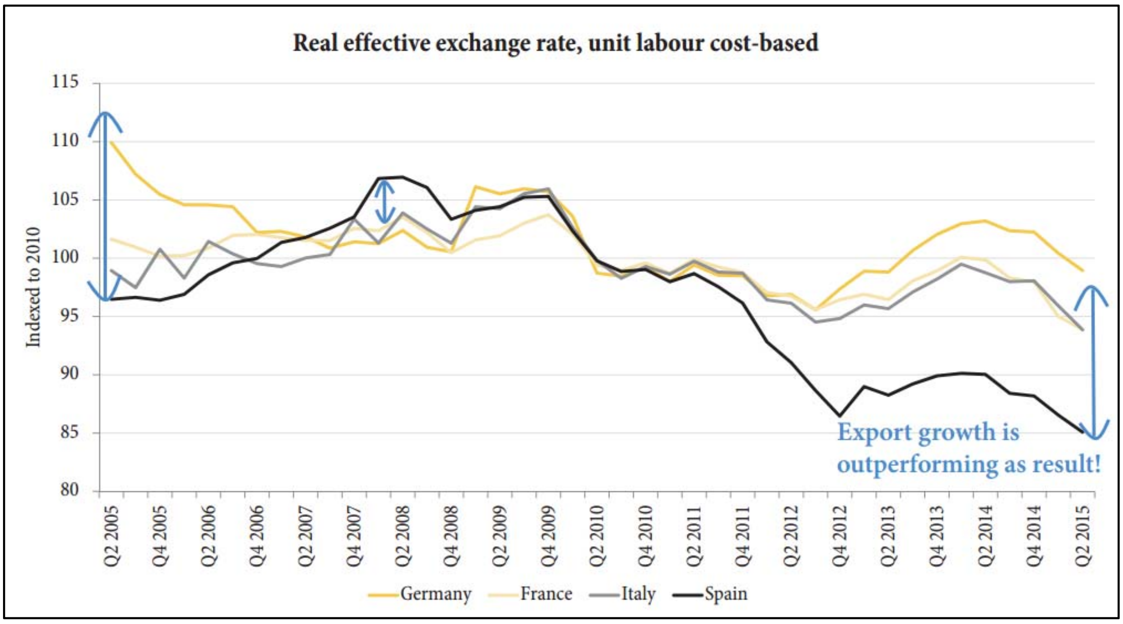

Source: Redburn

Tourism is also booming – Northern Europeans looking for sun have limited options these days with Mediterranean Africa, Turkey and Greece all off the vacation list for differing reasons.

With this recovery the power of the 'protest vote' is fading. Twelve months ago far left party Podemos led the polls but it now looks as though a centrist coalition will be the likely result of December's elections. At one point Spain looked like it was heading down the path of Greece; an imploding economy with high unemployment, social unrest and a radical left party at the helm that could threaten to tear the Eurozone apart. Fortunately, this tail risk now seems off the table.

In Italy, Germany, Norway and Finland we spent time visiting various niche industrials, market leaders and *Mittelstand*-type companies. The purpose was to gain conviction around our 'Hidden Champions' thesis, and look for more ideas in a similar vein. We found many excellent businesses with truly focused management that dominate their niches, running conservative balance sheets with genuine long term growth prospects. A number of these companies will be added to our watchlist, pending further work.

In the UK we visited a number of existing holdings, and a particular focus was on the shifting financial landscape. The economy remains strong with London the driving force, and the UK will be a fascinating test case to prove whether banks have learned anything from the previous crisis.

We see a number of interesting trends taking shape right now:

First, a spate of 'challenger banks' have listed in the last two years and more are slated to come to market. We have met many of them but don't find the quality and discipline we see in our existing Portfolio holdings. Many are desperately growing their loan books having just come out of PE hands and are under pressure to increase market share and provide exits for early investors. As one seasoned banker put it, *"if they're growing [their loan books] at triple the market rate they're either writing the wrong business or the right business at the wrong price*." Neither strategy is sustainable or desirable for bank shareholders in the long term.

Secondly, Buy-to-let lending is booming - we met one of the UK's largest BTL specialists who are seeing double digit loan growth. The old adage of 'an Englishman's home is his castle' is becoming less relevant - high property prices (per estate agent Savills, London's housing stock is now worth as much as Brazil's annual GDP), indebted students, couples marrying later (average age now of 34) and high rates of immigration are driving strong growth in the private rental market. 19% of Britons rent today, more than double the 8% ten years ago (though still behind the US at 32% and Germany at 47%). The stock of rental properties is also growing as post pension-reform retirees increasingly see the attraction of rental property as a product providing annuity-like returns without the volatility of the stock market.

We are also seeing strong growth in 'Peer-to-Peer' lending. We spent time with the founder of Zopa, Europe's largest and oldest P2P lender whose loan book has just eclipsed £1bn and is set to double annually. We were impressed with the focus of the company and discipline on display, and are convinced that there is a space for these products in disciplined hands given the proposition of decent rates for providers of capital and lower borrowing costs for customers. However, we suspect the compelling returns and high growth rates on offer may attract undisciplined players into the space who will inevitably get into strife and force the regulators to take a closer look over the medium term.

Note: During the quarter the Transaction Costs applicable to Applications and Redemptions in the Fund were reduced from 0.5% to 0.3%.